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EMPLOYMENT DISCUSSION PAPERS:

DEVELOPMENT OF A POLICY

PAPER NO. 2b

"JOB CREATION IN THE PRIVATE SECTOR"

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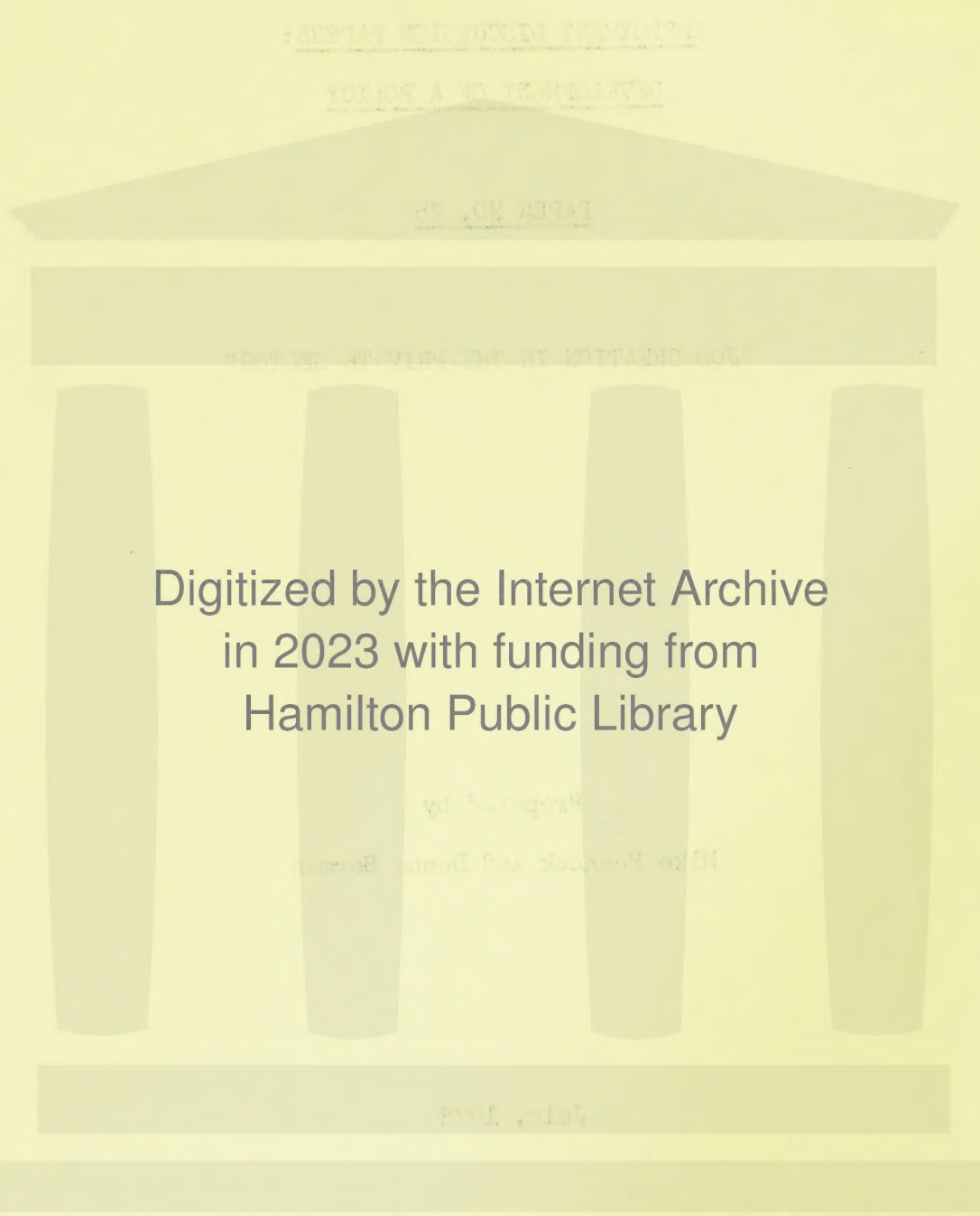
GOVERNMENT DOCUMENTS

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THE
**SOCIAL
PLANNING**
and RESEARCH COUNCIL
of Hamilton and District



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SUMMARY AND RECOMMENDATIONS

This paper briefly describes government programs to encourage job creation in the private sector. Government programs reflect the policy that economic growth and development will have a more positive effect on unemployment than any specific job creation initiatives in the market area.

Three principles are recommended for adoption by the Social Planning and Research Council Board of Directors. They are as follows:

- 1) The separation of funding and evaluation.
- 2) Jobs which are created in Hamilton-Wentworth should be relevant to the skills of the local unemployed.
- 3) Jobs which are created in Hamilton-Wentworth should be consistent with the need for a balanced local economy.

In cases where principles 2 and 3 are in conflict, priority should be attached to principle 2.

Various recommendations and suggestions for implementation are also contained in this paper. The recommendations proposed for S.P.R.C. adoption are as follows:

1. Responsibility for evaluation be removed from government funders and be turned over to an impartial local group such as the Department of Economics at McMaster University. Funds not exceeding five percent (5%) of the total job creation allocations in Hamilton-Wentworth would be made available to this group to conduct an ongoing evaluation of government sponsored private sector job creation programs in Hamilton-Wentworth.

2. Greater coordination between job creation agencies, the business development branch of the Regional Planning Department and the agencies which have information about the unemployed - primarily the Unemployment Insurance Commission, the Department of Manpower and Immigration and the Regional Social Services Department - is required to insure jobs created in Hamilton-Wentworth should be relevant to the skills of the local unemployed.
3. The Region should undertake a full-scale study of the transportation, communications, utilities and service sectors which will be directed at answering the following questions:
 - i) What industries within this sector have shown the slowest growth?
 - ii) Why has growth been impeded within these industrial sectors?
 - iii) How relevant would growth within these sectors be to the characteristics of unemployed persons in the Region?
 - iv) If further growth in these sectors is desirable, what remedial action should be undertaken?

Specific implementation steps are described with each of the above recommendations, within this paper.

INTRODUCTION

The purpose of this short paper is to outline the present government programs for job creation in the private sector and to recommend the general principles for adoption as S.P.R.C. policy.

There is no doubt that employment growth in Hamilton-Wentworth has lagged behind the provincial average and other urban centres. As shown in the appendix to this paper, of the eight Ontario centres for which data is available, we ranked seventh in terms of employment growth since 1961. Our slightly lower than average unemployment rate appears attributable to our lower participation rate.* Relatively fewer people in Hamilton-Wentworth were looking for jobs. If our participation rate increased, so would our unemployment rate.

The three principles which we propose for adoption are as follows:

- PRINCIPLE I: The separation of funding and evaluation.
- PRINCIPLE II: Jobs which are created in Hamilton-Wentworth should be relevant to the skills of the local unemployed.
- PRINCIPLE III: Jobs which are created in Hamilton-Wentworth should be consistent with the need for a balanced local economy.

In cases where principles 2 and 3 are in conflict, priority should be attached to principle 2.

The above principles are discussed in greater detail in another section of this paper.

*The participation rate represents the labour force as a percentage of the population 15 years of age and over.

GOVERNMENT INTERVENTION IN PRIVATE SECTOR JOB CREATION

For the most part, government efforts to stimulate job creation through programs geared to the private sector have been limited. The Federal Government's policy on job creation has been based on the assumption that natural job creation will result from economic growth. In Ontario, the government's position is similar to the Federal stand with the accepted general principle that a solid overall economic policy will have a more positive effect on unemployment than any specific initiatives taken in the market area.

Many of the Federal job creation programs (Canada Works, Young Canada Works, Local Employment Activities Programs) are geared to ameliorate problems of structural unemployment.* Such programs are usually aimed at the human services sector. Federal programs utilized by the private sector are often of a job training or preparation nature and will be discussed in another paper.

A short description of Provincial and Federal programs geared to encourage economic growth and job creation in the private sector follows:

FEDERAL:

1. Federal Business Development Bank (F.B.D.B.)

- deals with small and medium businesses
- uses medium term loans and equity investments
- straight term loans are possible.

The Federal Business Development Bank also has many information and counselling services available to assist small businesses.

*Structural Unemployment refers to a mismatch, i.e. unemployment and job vacancies co-exist, but the unemployed do not possess the characteristics desired by employers for the positions that are vacant.

2. Department of Industry, Trade and Commerce

- i) sector branch assistance involves feasibility studies in agriculture, fisheries, electronics, wood products and mechanical transportation.
- ii) enterprise development program involves all aspects of product to market and studies market feasibility.
- iii) machinery program involves assistance for importing machinery as long as it is not produced in Canada.

3. Canada Development Corporation

Provides share equity funds to venture capital corporations for them to invest in businesses.

The Federal Government also has programs designed to encourage summer employment for students. The Summer Job Corps and Student Summer Employment and Activities Program provide funds to encourage the hiring of students by private sector employers.

PROVINCIAL:

1. Ministry of Industry and Tourism

This ministry is primarily concerned with secondary manufacturing industries and services to such manufacturers. Programs within this Ministry include grant programs and shared-cost programs for the development of new products, programs for inventors, assistance in redesigning a product line and an energy management program.

2. Ontario Development Corporation (O.D.C.)

A lending institution modelled along the Federal Business Development Bank concept except the O.D.C. only deals with the manufacturing industry.

3. Acceleration of Capital Works

Designed to ameliorate the disproportionately higher unemployment in the construction trades.

4. Ontario Youth Employment Program (O.Y.E.P.)

A provincial program which provides an hourly wage subsidy to wages of summer employees hired by private sector employers.

Tax concessions and rebates provided by the Provincial Government are perhaps the most prominent involvement by this government in the private sector. The Provincial Government provides tax subsidy to encourage early investment in manufacturing equipment and machinery. This program is based on the traditional belief that tax exemptions to industry creates jobs.

Both provincial opposition parties questioned the validity of this belief during the March (1978) Provincial budget debates. There is some indication that rather than creating jobs the tax concessions have resulted in job-loss as the tax exemption on machinery encourages manufacturers to replace people with machines. As pointed out within this paper, the effectiveness of government intervention in private sector job creation has never been fully established. Certainly, the effectiveness of tax concessions as a means of job creation needs to be evaluated.

An alternative program to tax concessions might be wage subsidy schemes. The U.S. has recently implemented a major expansion of this type of employment incentive. Supporters of wage subsidy programs usually encourage such programs be directed to labour intensive small businesses which are less directly tied to international market forces.

Recognition of the problem of large numbers of new entrants and the absence of relative wage adjustments have led a growing number of countries to experiment with direct wage subsidy schemes.* The following table shows the proportion of Gross National Product spent on various programs by selected OECD**countries. The table indicates that this type of program has had relatively less emphasis in Canada. The wage subsidy program should be monitored to determine its job creation effects.

REGIONAL:

Through the Business Development and Promotion Department, the Regional Municipality of Hamilton-Wentworth has assumed responsibility for the promotion of the Region as a business, industrial and convention centre. An active staff is maintained to assist businesses wishing to locate in the Region.

* This statement suggests that the market forces of supply and demand have not affected wage levels. With a large labour force, one would expect wage levels to drop. This, however, has not occurred and has led some countries to experiment with wage subsidy schemes to encourage employment opportunities.

**O.E.C.D., The Organization for Economic Co-operation and Development, was set-up under a Convention signed in Paris, France on December 14, 1960.

EXPENDITURE ON EMPLOYMENT AND MANPOWER PROGRAMS
AS PERCENTAGE OF GNP: OECD COUNTRIES*

	Temporary Employment (Direct Job Subsidy)
<u>CANADA</u>	
1973-74	0.10
1974-75	0.08
1975-76	0.10
1976-77	0.12
1977-78	0.17
<u>GERMANY</u>	
1973	0.18
1974	0.22
1975	0.35
<u>UNITED STATES</u>	
1972-73	0.13
1973-74	0.10
1974-75	0.17
1975-76	0.30
<u>FRANCE</u>	
1973	-
1974	-
1975	0.02
1976	0.02
1977	0.04
<u>UNITED KINGDOM</u>	
1973-74	0.16
1974-75	0.19
1975-76	0.22
<u>SWEDEN</u>	
1973-74	1.05
1974-75	0.63
1975-76	0.88
1976-77	1.16
Source: OECD	

* Ministry of Treasury, Economics and Intergovernmental Affairs, Youth Employment and the Ontario Economy, June, 1978, p. 22

PRINCIPLES

PRINCIPLE I: THE SEPARATION OF FUNDING AND EVALUATION

PROBLEM:

As with most services, the effectiveness of government intervention in private sector job creation has never been fully established. There exists a great deal of controversy about different programs but very little empirical evidence.

One of the causes of this situation is the accountability problem which arises when the same group organizes, funds, delivers and evaluates a service. When the government evaluates their own programs, the lines of accountability become blurred.

An example of this was obvious in the last provincial election. One of the major intervention strategies of the provincial government has been that of tax concessions to corporations. At the time of the election, \$300 million dollars were marked for this purpose. The New Democratic Party argued that this was an ineffective job creation approach. They offered statistics and case histories which showed a loss of jobs as a result of increased mechanization which was financed through tax concessions. The government, on the other hand, produced statistics and case histories which supported the contrary position.

RECOMMENDATION:

We recommend that the responsibility for evaluation be removed from government funders and be turned over to an impartial local group such as the Department of Economics at McMaster University. Funds, not exceeding 5% of total job creation allocations in Hamilton-Wentworth, would be made available to this group to conduct an ongoing evaluation of government sponsored private sector job creation programs in Hamilton-Wentworth.

IMPLEMENTATION:

a) Communicate recommendation to Minister of the Employment and Immigration Commission (Federal) and the Minister of Industry and Tourism (Provincial) and request a response to the policy.

b) Meet with the Dean of Economics at McMaster University to ascertain the readiness of the Department to take on such a role.

c) Report back to Board meeting in November.

PRINCIPLE II: JOBS WHICH ARE CREATED IN HAMILTON-WENTWORTH SHOULD BE RELEVANT TO THE SKILL OF THE LOCAL UNEMPLOYED.

PROBLEM:

Jobs which are created through government intervention in Hamilton-Wentworth should be relevant to the characteristics of the local unemployed.

Thus, low priority would be given to attracting a firm which employed 500 pipefitters if there were only five unemployed pipefitters in the Region. This does not mean to suggest that such a firm who, on its own initiative, chose to locate in Hamilton would not be welcomed; but only that government intervention to encourage such a firm to locate in Hamilton would be of a low priority.

RECOMMENDATION:

This requires much greater co-ordination between job creation agencies, the business development branch of the Regional Planning Department and the agencies which have information about the agencies which have information about the unemployed - primarily the Unemployment Insurance Commission, Department of Manpower and Immigration, and the Regional Social Services Department.

- 1) What industries within this sector have shown the slowest growth?
- 2) Why has growth been impeded within these industrial sectors?
- 3) How relevant would growth within these sectors be to the characteristics of unemployed persons in the Region?
- 4) If further growth in these sectors is desirable, what remedial action should be undertaken?

IMPLEMENTATION:

The Regional Planning and Development Department is currently carrying out a study of future economic growth in the Region. The above recommendation should be communicated to the Commissioner of Planning and Development and the Chairman of the Regional Planning and Development Committee for incorporation into the study.

APPENDIX 1

REPORT TO THE REGIONAL COMMISSIONER OF SOCIAL SERVICES, APRIL, 1978

Our employment rate was slightly below the provincial average in 1977 (see Table I). The local rate of 6.3 represents an average of 17,000 unemployed.

This below average rate could be attributable to at least two causes -

1. we are creating more jobs than other areas.
2. we have proportionately fewer people looking for work.

ARE WE CREATING MORE JOBS?

The data in Table II yields an unequivocal "no" to this question. The employment rate indicates the extent to which employment has expanded since 1961. Subtracting 100 from the rate indicates the percentage expansion since that time.

The most recent published employment rates are for September, 1977. At that time, overall employment in the Hamilton area had expanded by approximately 34.8% since 1961.

This is a very low rate of expansion relative to the province, the country and other large Ontario municipalities. Only Sudbury has expanded at a slower rate. Hamilton is particularly weak in the service sector.

DO WE HAVE PROPORTIONATELY FEWER PEOPLE LOOKING FOR WORK?

Table III presents labour force participation rates. The answer to this question appears to be "yes". Our labour force participation rate does appear to be below average.

Apparently, therefore, our lower than average unemployment rate for 1977 was attributable to a proportionately smaller labour force and not to a proportionately larger employment market.

TABLE I: UNEMPLOYMENT RATE
1977 ANNUAL AVERAGE

1. St. Catharines	10.3	
2. Ottawa-Hull	8.5	
		Canada 8.1
3. Sudbury	7.4	
4. Kitchener-Waterloo	7.4	
5. Windsor	7.0	
		Ontario 6.8
6. Hamilton	6.3	
7. Toronto	6.1	
8. London	5.7	

TABLE II: EMPLOYMENT RATE, SEPTEMBER, 1977

CMA	Manufac- turing	Construc- tion	Transport, Communica- tion	Trade	Finance Insurance & Real Estate	Services	Composite
Kitchener- Waterloo	148.8	142.3	197.6	287.9	188.7	*	180.6
Ottawa-Hull	103.9	124.0	205.7	173.4	183.9	318.0	175.6
Windsor	168.0	131.3	151.4	188.5	*	253.6	172.5
Toronto	125.9	136.0	165.3	159.6	210.4	265.4	158.0
Ontario	133.4	122.8	136.5	174.3	195.3	260.4	150.5
Canada	128.2	122.4	133.7	169.1	196.6	257.4	147.3
St. Catharines	122.4	*	*	200.7	*	*	143.9
London	112.9	102.0	145.1	142.0	182.1	230.9	137.2
Hamilton	124.8	116.2	113.5	161.9	187.9	195.3	134.8
Sudbury	96.3	107.0	111.7	148.1	*	*	116.4

TABLE III: PARTICIPATION RATES
1977 AVERAGE

1. Kitchener-Waterloo	68.7	
2. Ottawa-Hull	68.2	
3. Toronto	67.1	
4. London	66.7	
		Ontario 63.8
5. Windsor	63.1	
6. Hamilton	62.6	
		Canada 60.9
7. St. Catharines Niagara	60.8	
8. Sudbury	57.7	

